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DEPARTMENT OF JUSTICE**

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NEWS RELEASE

ISSUED BY: Attorney General Peter W. Heed
SUBJECT: St. Paul's School
DATE: February 13, 2004
RELEASE TIME: 1:00 p.m.

Attorney General Peter W. Heed announced today that the Attorney General's Office has completed its review of certain administrative and financial practices at St. Paul's School. This review involved an examination of practices and information relating to (i) compensation, (ii) governance, and (iii) investment issues. An agreement has been reached with St. Paul's School; and that agreement is set forth in full in the attached letter agreement.

St. Paul's School, in accordance with its obligations under the New Hampshire Charitable Trusts statutes, regularly files financial information with the Attorney General's Office. As a result of these filings, the Attorney General's Office requested additional information from the School; and St. Paul's School has cooperated with the State.

The first area reviewed by the Attorney General's Office was administrative compensation. The School and its Board have announced voluntary reductions in compensation to be taken by the Rector and Vice Rector as of July 1, 2004. These reductions will be in place for two fiscal years. The School has agreed to tie future increases in the compensation of the Rector and Vice Rector to the percentage increases granted to members of the faculty as a whole, as described more fully in the attached letter agreement. In light of these changes, the Attorney General's Office has now concluded its inquiry into this area. The Attorney General's Office also

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reviewed the Bishop's Discretionary Fund and has agreed with the establishment of certain internal controls with respect to the Rector's Discretionary Fund.

With respect to the issues of governance and investments, St. Paul's has retained independent experts in the areas of institutional governance and investment management to conduct a thorough review of the School's practices in these areas. The Attorney General's Office has likewise retained independent outside experts in these areas to work with those experts retained by the School. The names of those experts and the process to be followed are set forth in the attached letter agreement. The Attorney General's Office believes this process will assure that the School's governance and investment management approaches are consistent with the "best practices" now emerging in the charitable sector. The experts will make recommendations at the May 2004 meeting of the St. Paul's board.

The Attorney General's Office has noted certain inconsistencies in the filing of the IRS Form 990s on an industry-wide basis. St. Paul's School has agreed to assist its peer institutions in achieving uniform practice.

For further information, please contact Michael S. DeLucia, Senior Assistant Attorney General at (603) 271-3591.



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February 12, 2004

Peter W. Head, Esq.
Attorney General
Office of Attorney General
Department of Justice
33 Capitol Street
Concord, NH 03301-6297

Re: St. Paul's School

Dear General Head:

I write to set forth the understandings we have reached to mark the conclusion of your office's inquiry into administrative and financial practices at St. Paul's School. Let me at the outset express the School's appreciation for the professional manner with which you and your colleagues have approached this matter. The successful resolution of the Attorney General's concerns owes much to the thoroughness of your review of all pertinent information. This letter will confirm that the Office of Attorney General and St. Paul's School have resolved their disagreements in respect to leadership compensation, investment management, and institutional governance, as described below.

As you know, the School consistently seeks to improve its operations and procedures, and has for several years employed external consultants who offer their expertise in each area. St. Paul's School and the Office of Attorney General have each, respectively, retained independent experts to assess and make recommendations to the School's governing board in the areas of (a) institutional governance, and (b) investment of the SPS endowment. The experts so retained are:

- A. Governance: (i) For SPS: Richard Allen, Esq. (former Chief of the Public Charities Division of the Office of Attorney General in Massachusetts); (ii) For the Attorney General: David Ornstedt, Esq. (former Director of Charitable Trusts in Connecticut).

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B. Investments: (i) For SPS: Professor Jay O. Light (Harvard University School of Business Administration); (ii) For the Attorney General: Harold Janeway (New Hampshire investment advisor).

St. Paul's and the Attorney General have agreed that the above-named experts shall make independent assessments of and recommendations concerning the School in the areas of governance and investment management, as appropriate. St. Paul's and its designated experts shall make available to the Attorney General's experts all materials that they may reasonably request in order to make their assessments and recommendations, subject to their agreed adherence to the stipulation of confidentiality that currently governs information-sharing between St. Paul's and the Office of Attorney General. This stipulation is designed to safeguard business and proprietary information in accordance with the dictates of New Hampshire law. The two experts in each area shall confer regarding their respective assessments and recommendations, so that the governing board of the School may have the benefit of their insights. All four experts will make presentations to the School's governing Board at its May, 2004 meeting (or as otherwise agreed) with respect to "best practices" in the charitable non-profit sector. The School's governing board shall consider and discuss the received assessments and recommendations and shall, in the properly informed and reasonable discretion conferred upon it by law, adopt those recommendations that the board determines to be in the best interests of the School. Provided, however, in the event that the board does not adopt a particular recommendation, the board will articulate the specific reasons it has determined that the recommendation is not in the best interests of St. Paul's. The Office of Attorney General shall be provided with a statement of such reasons, and the School agrees to make its leaders and/or legal counsel available to address any concerns the Attorney General might have in connection with the same.

St. Paul's shall make a copy of its audited financial statements available to the general public, either on its website or at its Business Office, within 120 days following the end of its fiscal year. The School further agrees that its Business Office will make best efforts to file its Form 990 in a timely manner and without the necessity of an extension.

As you know, Rector Craig B. Anderson and Vice Rector Sharon D. Hennessy have previously announced that they will, as part of a School-wide budgetary initiative undertaken in connection with its Five Year Financial Plan, take a voluntary ten percent (10%) reduction in their respective total compensation for the year beginning July 1, 2004 and ending June 30, 2005. The School has agreed that, between FY 2004-05 and the conclusion of FY 2005-06, the total compensation packages of the Rector and Vice Rector (inclusive of all salary, taxable benefits, deferred pay and retirement contributions) shall not exceed \$452,000 and \$297,000, respectively.

St. Paul's has agreed that, for the remainder of their tenure(s) as Rector and Vice Rector, Bishop Anderson and Dr. Hennessy shall not be granted any new, additional benefits that are not also granted to the faculty as a whole on like terms.

Starting in the fiscal year commencing July 1, 2006, St. Paul's agrees that any increases in the salary of the Rector or Vice Rector shall be limited to, and not exceed, the same

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percentage increase that is granted to the faculty of the School as a whole. Thus, if faculty salaries are increased by 4% in a given fiscal year, then the increases in the salaries for the Rector and Vice Rector shall not exceed 4% in that year. In the unanticipated event that a merit-based system for faculty salaries is adopted by the School, no increase shall be awarded to the Rector or Vice Rector unless (a) the School's governing board or a delegated subcommittee thereof has set goals in the preceding year, and conducted an evaluation of the Rector and Vice Rector's respective performance in meeting previously identified goals, and (b) in no event shall the increase in compensation exceed the average percentage increase awarded to the faculty overall.

As part of ongoing improvements to the School's business and financial operations, we have previously agreed to implement new internal controls regarding the disbursement of funds from the Rector's Discretionary Funds, with approval and accounting of all expenditures carried out by the Business Office. The School will provide its written statement of policies and procedures in this regard to the Attorney General under separate cover.

During its inquiry, the Office of Attorney General has noted inconsistent industry-wide practices in the filing of IRS Form 990, the primary vehicle for providing financial information about charitable entities to the public. This inconsistency is evident in the reporting of non-salary compensation of administrative leaders at independent private schools. Given the vital role of this public reporting, the School has agreed to notify the National Association of Independent Schools (NAIS) and inform it of its concerns relating to the completeness of the Forms 990 prepared by member institutions. St. Paul's further agrees to suggest to NAIS or a similar trade organization that it conduct a workshop or seminar that addresses the importance of full disclosure in the charitable sector. St. Paul's fully shares the Attorney General's appreciation of the importance of protecting charitable assets, and adhering to fiduciary standards in all financial areas to maintain transparency and accountability.

The School and the Attorney General agree that this letter agreement is a public document and may be disclosed without limitation. The parties otherwise agree that all of the discussions, correspondence, and transmittals of business and proprietary documents and information leading up to this agreement shall be maintained in confidence to the fullest extent permitted by law. In the event legal process of any kind is initiated against either party seeking disclosure of information or documents pertaining to the agreement or its subject matter, that party shall promptly notify the other prior to producing such information or documents in order to afford it a reasonable opportunity to intervene and seek an appropriate protective order. Notwithstanding the foregoing, it is agreed that the Office of Attorney General may share information and/or documents with peer agencies in the state or federal government; and St. Paul's may share information and/or documents with members of its governing board, constituents and as otherwise necessary to carry out the business affairs of the School.

The Office of Attorney General and St. Paul's School agree to exercise all due diligence and utmost good faith to craft a fair and accurate press release announcing the conclusion of the Attorney General's inquiry.

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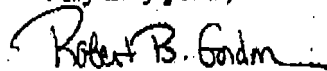
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The parties have agreed that, subject to the fulfillment of all the commitments described in this letter, the inquiry of the Office of Attorney General shall be considered concluded. The parties shall meet annually between the end of the fiscal year (June 30) and the filing of that year's Form 990 for the purpose of discussing compliance with the terms of this letter. Such meetings shall be held until December, 2008. In the event there is a disagreement regarding any aspect of the foregoing, which the parties cannot resolve in a reasonable amount of time, the parties have agreed to submit such disagreement to a process of mediation conducted by a mutually selected neutral. The School's representatives remain available to meet with you whenever you deem it appropriate to do so.

Please confirm that this letter represents an accurate recitation of the understandings reached by St. Paul's School and the Office of Attorney General by countersigning in the space below.

Very truly yours,



Robert B. Gordon
Counsel for St. Paul's School

AGREED:



Peter W. Heed, Esq.
Attorney General
Office of the New Hampshire Attorney General

Dated: February 12, 2004

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